National Film Board of Canada

2014-15

Quarterly Financial Report for the quarter ended June 30, 2014

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1. Introduction

The National Film Board (NFB) was created by an act of Parliament in 1939. A federal cultural agency within the Canadian Heritage portfolio, the NFB exists to produce and distribute original, innovative audiovisual works that raise awareness of Canadian values and viewpoints and of the issues of interest to Canadians, across the country and around the world. The NFB serves Canadians by producing and making accessible, in all regions of the country and on all available platforms, rich and diverse cultural content that reflects Canada's rapidly shifting demographic profile and that would not be produced otherwise. A brief description of the agency's activities for the current year can be found in *Part II of the Main Estimates*.

The present quarterly report has been prepared by management as required by Section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by Treasury Board. This quarterly report should be read together with the *Main Estimates* as well as with *Canada's Economic Action Plan 2012* (*Budget 2012*).

2. Basis of Presentation

This quarterly report has been prepared by management using expenditure accounting. The accompanying Statement of Authorities includes the agency's spending authorities granted by Parliament and those used by the agency consistent with the Main Estimates and Supplementary Estimates for the 2014-15 fiscal year. This quarterly report has been prepared using a special-purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before monies can be spent by the Government of Canada. Approvals are given in the form of annually approved limits through the *Appropriation Act* or through legislation in the form of statutory spending authority for specific purposes.

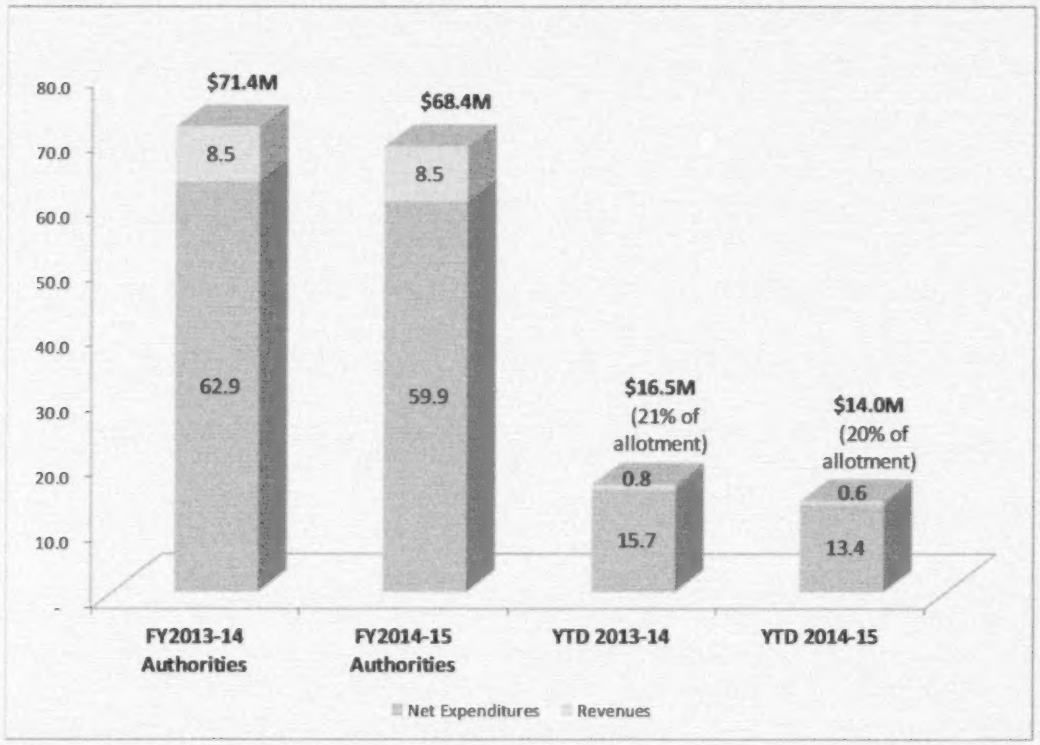
In 2014-15, the changes to departmental authorities were implemented through the Annual Reference Level Update, as approved by Treasury Board and reflected in the 2014-15 *Main Estimates* tabled in Parliament.

The NFB uses the full accrual method of accounting to prepare its annual financial statements in accordance with Treasury Board accounting principles, which are consistent with generally accepted Canadian accounting principles for the public sector. However, the spending authorities voted by Parliament remain on an expenditure basis.

This quarterly report has not been subject to an external audit or review.

3. Highlights of Fiscal Quarter and Fiscal Year-to-Date (YTD) Results

This section highlights the principal factors that contributed to the variances between projected and actual expenditures and expected and earned revenues for the period ended June 30, 2014.



The preceding graph shows the total budgetary authorities granted to the NFB for fiscal 2014-15, with projected gross expenditures totalling $68.4 million. This is $3 million less than in the preceding fiscal year. This decrease is attributable primarily to the savings measures announced in Budget 2012 (see the Budget 2012 Implementation section).

Table 2 shows expenditures and revenues for the first quarter of 2014-15. Here is an overview of the main items to be noted.

Variance in Revenues

First quarter actual revenues were lower than last year's figure, totalling $0.6 million. During this quarter, the NFB experienced foreign-exchange losses on its transactions in euros and pounds sterling. In 2013-14, revenues included significant earnings from the highly successful film

Stories We Tell, as well as an extraordinary revenue item from the sale of the Montreal Cinerobotheque's equipment under an agreement with the Université du Québec à Montréal.

Variance in Expenditures

Gross expenditures for the first quarter of 2014-15 were $2.5 million lower than in the first quarter of the preceding year, totalling $14.0 million. Most of this decrease was in salary expenditures. In 2013-14, over 70% of the unionized employees decided to cash out their severance pay following the announcement that this pay would cease to accumulate.

Transportation and communications expenditures consist mainly of travel expenses. Even though the NFB continues its diligent efforts to minimize these expenditures, some film productions may still incur more travel expenses than others involving non-linear fluctuations over time. In 2013-14, certain film productions required more travel.

Expenditures for professional and special services showed a decrease, attributable to audiovisual services. During the first quarter of 2013-14, outside services were required for the productions *Little Big Girls*, *Il ventait devant ma porte*, *Nul poisson où aller* and *Fort McMurray*.

The decline in rental expenditures was due to the savings on rent following the closure of cinema facilities in Montreal and Toronto and the relocation of workshop classrooms to NFB headquarters in Montreal.

Expenditures for repair and maintenance services increased because of maintenance that had to be done on the technical equipment used to digitize audiovisual works, including the DVS-SAN storage unit and the Spirit 4K Datacine.

In 2013, other subsidies and payments included the purchase of video archives and rights for the productions *Ron Turcotte* and *Rosies of the North*.

The other types of expenses by standard object followed historical trends.

4. Risks and Uncertainties

The external risks that the NFB faces remain unchanged. Foremost among them in its organizational risk profile is a decline in its revenues and in its spending authorities from Parliament. Year after year, the NFB and the other cultural agencies in the audiovisual sector are underscoring the decline in broadcast revenues and the impact of the transition from the traditional to digital distribution model.

That is why, in this environment, the NFB is working actively to develop new modes of financing and to take advantage of new distribution platforms to ensure its financial independence and secure the resources that it needs to fully accomplish its mandate. Starting in 2014-15, the NFB wants to develop more effective advertising campaigns to market its content.

As a public agency, the NFB demonstrates a strong, sustained commitment to the education sector. The NFB not only will develop more content for education professionals and expand its base of CAMPUS subscribers in Canada, but will also strengthen these efforts in the U.S. and international markets. To achieve its new objectives for generating earnings and developing audiences, the NFB has restructured its Educational and Institutional Markets branch. This restructuring will encourage sales and market-development activities, the development and acquisition of educational content, and long-term relationships with teachers.

Lastly, NFB headquarters has been located in the borough of Saint-Laurent in the city of Montreal since the 1950s. Hence it is fairly far from the city centre, in a neighbourhood that is not very accessible and has no cultural infrastructure. The NFB is continuing its examination of this risk and its efforts to relocate its Montreal offices.

5. Significant Changes Related to Operations, Personnel and Programs

In addition to the implementation of the federal 2012 budget, which has resulted in a permanent 10% ($6.7 million) reduction in its Parliamentary spending authorities, the NFB will have to fund the salary revisions for 2014-15 and 2015-16 (totalling $1.2 million) out of its own operating budget.

6. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that have been implemented to refocus government and programs, make it easier for Canadians and business to deal with their government, and modernize and reduce the back office. The NFB has applied reductions and restraints to streamline and focus its operations so that it can continue to deliver quality as it fulfils its important mandate.

The original plan, which called for savings of $6.7 million (10% of the NFB's budget) starting in fiscal 2014-15, has been carried out, with the exception of information technology (IT) support through shared government services and the expected savings from the transition from selling physical products to selling virtual ones. To date, the NFB is still awaiting a decision regarding the takeover of support for its corporate IT services by Shared Services Canada, while the conversion of educational institutions to the technological infrastructures needed to accommodate delivery of digital content is progressing well. For this reason, in 2014-15, the store for physical products will be reduced so as to accommodate only those clients who still do not have access to the appropriate infrastructure.

The principal savings measures that have been taken are as follows.

- On September 1, 2012, closure of individual screening booths and screening rooms at the Toronto Mediatheque and Montreal Cinerobotheque. Educational workshops will continue to be offered at headquarters in Montreal and on the usual premises in Toronto, where a public exhibition space will also be available.
- On April 1, 2012, elimination of the "Festivals and Events" component of the Grants and Contributions Program.
- A slight reduction in the amounts allocated for the production of audiovisual works, representing 1% of the NFB's total budget.
- Consolidation of administrative services in regional offices.
- Implementation of new work processes in all NFB divisions, particularly in linguistic services management, rights management, and general administration. The NFB will continue to rationalize its space utilization and expects to save additional amounts.

Despite the delays in implementing two initiatives that have not been completed to date, the NFB will absorb the impact of the cost reductions through its ongoing program of internal efficiencies.

The NFB has received no additional funding to implement the above measures.

Approved by:

Claude Joli-Coeur
Acting Government Film Commissioner

Montreal, Canada

August 31, 2014

Luisa Frate
Director General,
Finance, Operations and Technology
(Chief Financial Officer)

Montreal, Canada

August 31, 2014

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Table 1 : Statement of Authorities ***(unaudited)***

	Fiscal Year 2014-2015			Fiscal Year 2013-2014		
(dollars)	Total available for use for the year ending March 31, 2015 *	Used during the quarter ended June 30, 2014	Year to date used at the quarter-end	Total available for use for the year ending March 31, 2014 *	Used during the quarter ended June 30, 2013	Year to date used at the quarter-end
Vote 70 - Operating expenditures	59,912,241	13,400,888	13,400,888	62,890,037	15,751,273	15,751,273
Total Budgetary authorities	59,912,241	13,400,888	13,400,888	62,890,037	15,751,273	15,751,273
Total authorities	**59,912,241**	**13,400,888**	**13,400,888**	**62,890,037**	**15,751,273**	**15,751,273**

**Includes only Authorities available for use and granted by Parliament at quarter-end*

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Table 2 : Departmental budgetary expenditures by Standard Object *(unaudited)*

	Fiscal Year 2014-2015			Fiscal Year 2013-2014		
(dollars)	Planned expenditures for the year ending March 31, 2015	Expended during the quarter ended June 30, 2014	Year to date used at quarter-end	Total available for use for the year ending March 31, 2014	Used during the quarter ended June 30, 2013	Year to date used at quarter-end
Expenditures:						
Personnel	36,543,970	9,140,520	9,140,520	38,432,138	10,294,441	10,294,441
Transportation and communications	3,159,355	362,662	362,662	3,267,813	578,088	578,088
Information	538,826	46,777	46,777	557,323	91,082	91,082
Professional and special services	13,439,386	1,411,754	1,411,754	13,900,747	1,579,338	1,579,338
Rentals	7,983,829	1,769,719	1,769,719	8,257,906	2,748,398	2,748,398
Repair and maintenance	1,329,275	801,405	801,405	1,374,908	681,590	681,590
Utilities, materials and supplies	1,111,254	156,318	156,318	1,149,402	196,716	196,716
Acquisition of machinery and equipment	3,356,902	201,557	201,557	3,472,141	170,901	170,901
Transfer payments	80,000	5,000	5,000	80,000	-	-
Other subsidies and payments	821,890	131,774	131,774	850,105	200,316	200,316
Total gross budgetary expenditures	**68,364,687**	**14,027,486**	**14,027,486**	**71,342,483**	**16,540,870**	**16,540,870**
Less Revenues netted against expenditures:						
Revenues credited to the vote	8,452,446	626,598	626,598	8,452,446	789,597	789,597
Total Revenues netted against expenditures	**8,452,446**	**626,598**	**626,598**	**8,452,446**	**789,597**	**789,597**
Total net budgetary expenditures	**59,912,241**	**13,400,888**	**13,400,888**	**62,890,037**	**15,751,273**	**15,751,273**